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ROUTING

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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday March 30, 1977

CG NIDC 77-073C

NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

DIA review(s) completed. State Dept. review completed

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National Intelligence Daily Cable for Wednesday, March 30, 1977.

25X1 [REDACTED] The NID Cable is for the purpose of informing senior US officials.

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EGYPT-LIBYA: Renewed Tension

[redacted] //Renewed tension between Egypt and Libya may be prompting the Egyptians to strengthen their military position along the border.//

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[redacted] an Egyptian armored brigade began moving toward the border on Monday. [redacted] this action is not part of a major build-up but is an effort to tighten security in the border area. We cannot confirm recent movement of any ground combat units to western Egypt.//

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[redacted] Egypt and Libya closed their borders again last week. Libya took the first step on March 21 and Egypt retaliated five days later.

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[redacted] Libyan President Qadhafi seems worried about his security situation. Discontent with Qadhafi surfaced at his recent People's Congress, anti-government pamphlets have appeared inside Libya, and Qadhafi has had problems with religious leaders. The Libyan leader apparently fears saboteurs may enter the country.

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[redacted] Increased numbers of Libyan-sponsored saboteurs have infiltrated Egypt recently, and Cairo may want to counter by renewing military pressure along the border, as it did last summer. [redacted]

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ZAIRE: Situation Report

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[redacted] The Katangan force is continuing to advance toward Kolwezi, capturing Kayembe from Zairian units on Monday. Despite Zairian preparations, US embassy sources in Kinshasa estimate the Katangans could take Kolwezi "within a matter of days." Some Katangans already may have infiltrated the city.

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[redacted] The embassy reports that the Zairian military position in the south is still deteriorating. The Zairians apparently lack communications between the front and Kolwezi headquarters, and the military forces have "extremely poor morale" and are deserting at an alarmingly high rate. In the minor fighting that has occurred so far, the Zairians have failed to capture any prisoners or weapons.

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[redacted] Zairian commanders apparently have almost no idea of the strength and locations of Katangan units. Zairian units dispatched to locate the Katangans often desert. Government troops in Mutshatsha reportedly were "taken completely by surprise" and the invaders captured large amounts of ammunition, fuel, and railroad stock.

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[redacted] The Zairian high command now appears to be taking steps to shore up the military position in Shaba. Mobutu has replaced many commanders in the south and has turned over responsibility for the defense of Kolwezi to an officer reportedly held in high regard by the Belgians. One of the battalions recently sent to reinforce Kolwezi was ordered to fight the Katangans.

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[redacted] These steps and others the Zairians are pursuing--seeking foreign intervention and recruiting mercenaries--could be too late to prevent the complete disintegration of the Zairian military. Nevertheless, some observers in Zaire feel the government may be able to regain the initiative. [redacted]

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[redacted] told US embassy officials that he felt Zairian troops "would stand and fight under effective leadership."

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[] In Lubumbashi, the US consul reports that there is still little information about the identity, strength, and objectives of the Katangans.

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[] Most Shabans nonetheless seem increasingly sympathetic toward the Katangans. Faced with rising prices and constant harassment from government officials, Shaban workers and farmers do not seem interested in taking up arms for Mobutu, and prefer to wait for what they hope will be a more enlightened leadership.

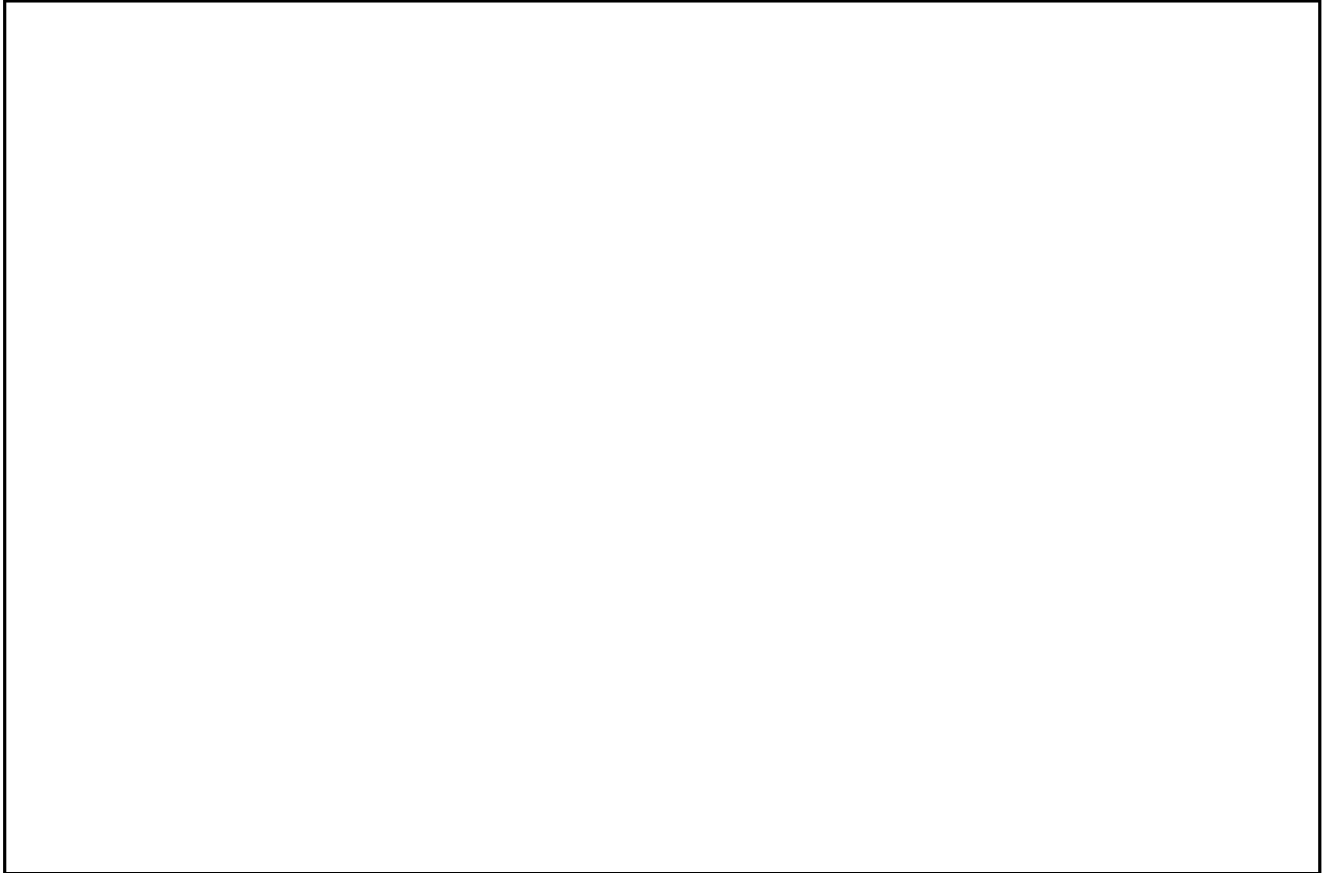
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[] The Katangans have been welcomed in western Shaba by their fellow Lunda and Tschokwe tribesmen, whom the government has long neglected. On the other hand, the Luba tribe--the largest in Zaire--in northern Shaba and eastern Kasai provinces is generally apprehensive about the invaders; the Katangans in the past have been anti-Luba.

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USSR - WEST GERMANY: Meetings

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[REDACTED] Some progress toward improving West German relations with the Soviets appears to have been made during West German Foreign Office political director Van Well's visit to Moscow last week. The West German and Soviet foreign ministers probably will meet this summer to lay the groundwork for a possible session in the fall between West German Chancellor Schmidt and General Secretary Brezhnev.

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[REDACTED] Van Well commented that the Soviets made an effort to be friendly and expressed no criticism of the US or its allies. A former official of the Soviet embassy in Washington attending the sessions seemed to suggest that US-Soviet relations would soon be normal after a "breaking in" period.

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[] The West Germans and Soviets addressed a wide variety of subjects, including nuclear proliferation, arms control, and the Middle East. The Soviets specifically criticized the West German - Brazilian nuclear accord because it would mean the transfer of sensitive technology to a country that is a "violent opponent" of non-proliferation. Van Well informed the Soviets that the deal was going to be implemented and that it was not a proper subject for criticism.

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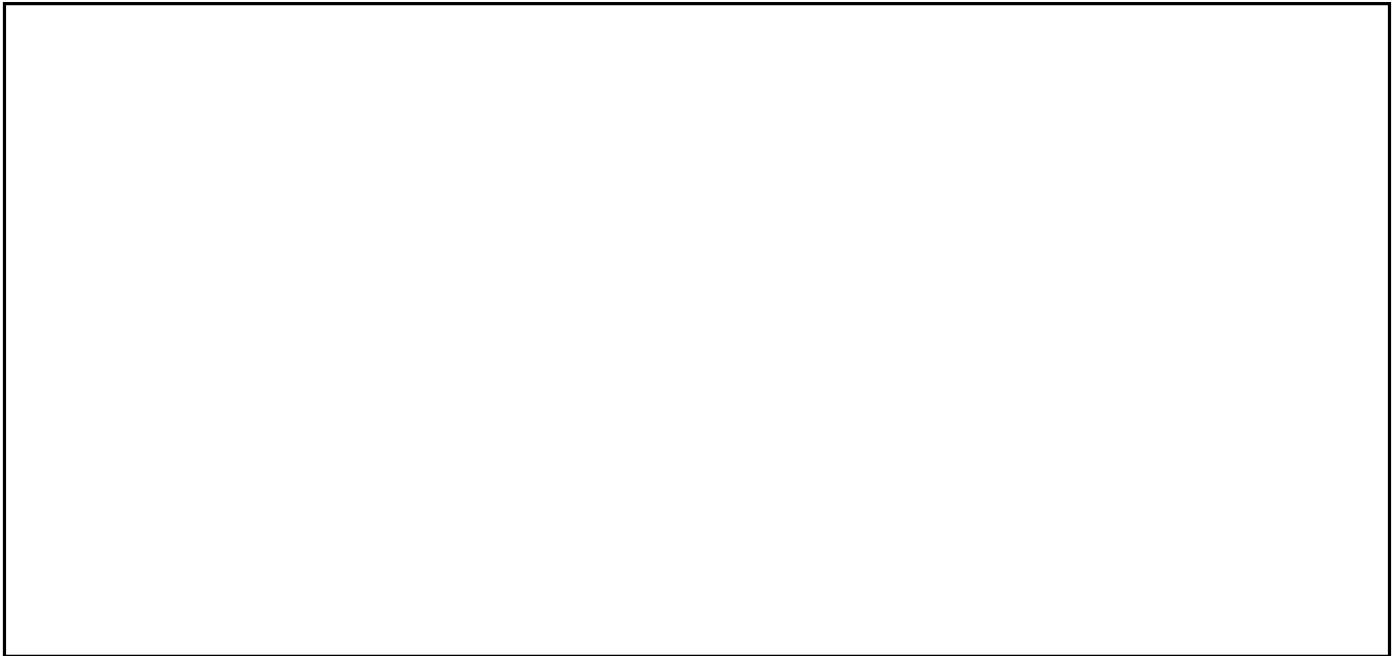
[] The Soviets agreed with the West Germans that the nuclear suppliers' discussions should be expanded to include consumer states and asked that the West Germans support full fuel cycle controls when the issue is addressed in the nuclear suppliers' group.

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[] Some progress was made on bilateral issues, including the cultural accord and the scientific and technological cooperation agreement. Disagreement over whether and how to include Berlin in these accords continues to be the major hurdle. Van Well commented that the Soviets had not changed their position but appeared to want to resume discussions on Berlin matters.

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FRANCE: New Cabinet Announced

[] A new French cabinet, designed to end the political rivalries that have divided the governing coalition, will be announced later today. It is expected to include at least some individuals who back President Giscard's centrist program of gradual reforms.

[] Raymond Barre, who will keep his post as Prime Minister and minister of finance, has said that the cabinet he is forming will not consist solely of technicians. He is likely to select ministers who have some political ties but are not as involved in partisan politics as many of their predecessors.

[] President Giscard has again rejected a confrontation with the left as demanded by his Gaullist allies and is apparently trying to put together a reformist program that will appeal to the voters he lost to the Socialist-Communist opposition. Giscard has said that his non-partisan government will carry out the economic recovery program already begun by the popular Barre and also will formulate an "action program" designed to help families, the aged, and unemployed youth.

[] Giscard has interpreted his coalition's electoral defeat in the recent municipal elections as an indication that the French public wants change. He probably hopes that a fresh governmental team, not too closely identified with old party labels, will improve the coalition's chances of defeating the left in the parliamentary election next spring.

[] It is not at all certain that the French public will accept Giscard's strategy or that a centrist solution will work in a society deeply polarized between left and right. If Giscard intends to accomplish structural reforms, he will need a firm majority in parliament, which a non-partisan government will not guarantee. Giscard also will have to coordinate his bills even more carefully than before with Gaullist leader Jacques Chirac, his chief political rival within the governing coalition. []

UK: Budget Speech No Surprise

25X1 [] //British Chancellor of the Exchequer Denis Healey yesterday announced a \$2.6-billion tax reduction package aimed at gaining union support for a third year of wage restraints. While the overall size of the tax package is in line with union demands, the conditional nature of a large share of the cuts probably will disappoint the unions and make negotiations of continued wage restraints difficult.//

25X1 [] //According to Healey, unconditional and conditional income tax cuts will be granted in the coming fiscal year. The unconditional tax cuts amount to \$2.2 billion, largely in the form of increased personal tax exemptions. Another \$1.7 billion in personal income tax cuts, including a reduction in the minimum tax rate from 35 to 33 percent, will hinge on the outcome of wage restraint talks with the unions. The income tax cuts will be partly offset by higher taxes on cigarettes and gasoline.//

25X1 [] //The tax package does little to help the higher paid, who have been discouraged by wage curbs, high taxes, and rapid inflation. The Confederation of British Industry, Britain's most important employer organization, pushed for a two-year reduction in the top marginal tax rate from the current 83 percent to 65 percent. However, the only tax concession for the wealthy mentioned in the package was a \$2,000 increase in the income threshold for the top rate.//

25X1 [] //Healey did not specify any limits on wage increases. Last year, the government tied the conditional tax cuts to a 3-percent increase in wages. This proposal, however, was rejected by the unions and later replaced by a 4.5-percent ceiling.//

25X1 [] //Given the drop in real disposable income last year and erosion in pay differentials over the past 20 months, the government was obviously in no position to press for any set wage ceiling at this time. Many rank-and-file union members are strongly opposed to a third year of wage restraint, although the union leadership still seems willing to work out an agreement with the Callaghan government.//

25X1 [] //Overall, the budget will have a mildly stimulating effect on the economy. The tax measures are expected to increase employment by 100,000. Despite the tax cuts, Britain's budget deficit is expected to drop by about \$500 million in the coming fiscal year in large part because of the British agreement to cut public spending in order to obtain assistance from the International Monetary Fund last December. []

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25X1 ITALY: Labor-Government Talks

25X1 [] Italian Prime Minister Andreotti is talking with labor leaders in hopes of finding a compromise in the dispute that has developed over the terms of a \$530-million credit negotiated with the International Monetary Fund on March 17.

25X1 [] Italian party leaders--reluctant to bring Andreotti down--have shown signs of flexibility on the IMF issue. Whether Andreotti can find a compromise, however, will depend in large part on his ability to reach an agreement with the unions, because the Communists and Socialists in particular would be reluctant to approve the IMF agreement without labor's acquiescence.

25X1 [] Government and union negotiators yesterday failed to reach agreement following an all-night bargaining session. So far, the unions have made only very small concessions. The talks were to resume last night.

25X1 [] The government concluded earlier that it would have to back down on certain measures the IMF had demanded in an attempt to reduce labor costs. Labor leaders, however, were willing to consider alternate steps that the government thought would meet the IMF conditions.

25X1 [] The labor leaders' flexibility provoked a worker backlash that appears to have stiffened the leaders' bargaining posture. As a result, the government and the unions are now at loggerheads, principally over the issue of automatic cost-of-living wage increases. The main sticking point appears to be the unions' insistence on limiting the categories of public service price hikes that will be excluded from the items used to calculate the automatic raises. []

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